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TO RUEHC/SECSTATE WASHDC 8505
INFO RUEHBO/AMEMBASSY BOGOTA 5677
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RUEHLP/AMEMBASSY LA PAZ APR SANTIAGO 1850
RUEHBR/AMEMBASSY BRASILIA 7834
RUEHBU/AMEMBASSY BUENOS AIRES 3346
RUEHCV/AMEMBASSY CARACAS 1131
RUEHME/AMEMBASSY MEXICO 3646
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC

UNCLAS LIMA 000730

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DEPT FOR WHA/AND, EB/IEP
COMMERCE FOR 4331/MAC/WH/MCAMERON
TREASURY FOR MMALLOY

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [PE](#)

SUBJECT: DOLLARIZATION DROPS BELOW 50%, VEHICLE CREDITS KEEP
SOARING

¶1. Summary: Dollarization in Peru, as measured by bank deposits, decreased to below 50% in March 2008, when deposits in domestic currency exceeded those in dollars for the first time since the economic reforms of the 1990s, according to a report of the Banks Association (ASBANC). ASBANC also reported that vehicle loans stayed in the fast lane, increasing 50.6% year-on-year in March, while delinquency on these loans was surprisingly low at 0.45%, both a clear reflection of the growing incomes that result from the impressive growth of the Peruvian economy since 2002, and keen credit competition. End Summary.

NEW SOL DEPOSITS EXCEED DOLLARS FOR THE FIRST TIME

¶2. For the first time since ASBANC started collecting banking statistics in 2001, deposits in New Soles exceeded dollar deposits, accounting for 51.6% of total deposits. Dollarization of deposits thus stands at 48.4% at the end of March 2008, compared with 72.6% at the end of January 2001. Peru's Central Bank (BCR) noted that dollarization of broad money (liquidity) dropped to 39.8% at the end of March 2008, compared with 50.2% at the end of March 2007.

¶3. Dollar deposits had been decreasing steadily in the last few years, but the pace accelerated in the January-March period, when the dollar rate against the new sol fell 5.7% compared with the December 2007 average rate. At the end of December 2007, dollar deposits accounted for 59.4%, falling a hefty eleven percentage points to 48.4% at the end of March 2008. Still, dollar deposits at the end of March 2008, \$14.1 billion, were 17.7% higher than a year earlier.

AUTOMOTIVE CREDITS IN THE FAST LANE

¶4. While the Central Bank is trying to tighten credit as a result of inflationary fears, vehicle bank loans stayed strong, increasing 50.6% in March 2008 compared to the same month of 2007. Delinquency on these vehicle loans was extremely low at 0.45%. Both figures are a clear reflection of the growing incomes that result from towering growth of the Peruvian economy since 2002, and vibrant banking competition. These loans reached \$249 million at the end of March 2008, still a relatively small part of total bank consumer loans at 5.0%. Market share of vehicle bank loans is slated to keep increasing, even though total bank loans also increased a hefty 28.02% in the same period.

MCKINLEY